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UNCLAS SECTION 01 OF 04 KINSHASA 001399

SIPDIS

E.O. 12958: N/A

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SUBJECT: ECONOMIC REPORT - LATE JUNE THROUGH 23 JULY 2004

1. Summary. Bank of Commerce and Development (BCD) liquidation and conflict in eastern DRC temporarily raise exchange rates. Prices remain relatively stable. The diamond sector continues to see increased activity with CEEC projecting exports of USD 1 billion by 2006 (up from current USD 700-800 million). Public enterprise workers (ONTRA, RVF, RVM, OFIDA, and OCPT) strike for salary arrears. Air traffic controllers may be threatening similar action. The Kindu-Lubumbashi rail line reopens with assistance from USAID. Utexafrika merges with Hong Kong-based Cha Textiles. The IMF approves USD 40 million for the DRC and commends GDRC progress towards structural reform. DRC domestic debt reaches USD 1.15 billion. Gastroenteritis infection rates rise in Kinshasa due to low Congo River water levels. End Summary.

MONETARY AND PRICE UPDATE

2. Prices have remained relatively stable. Despite problems with river commerce due to low water levels of the Congo River during the dry season, most roads are passable during this time of year. Prices also remained mostly stable in the DRC's eastern provinces despite continuing tensions.

3. Exchange rates rose slightly in June and early July due to two major events. First, the Congolese Central Bank's (BCC) liquidation of the BCD increased the demand for USD as bank depositors receiving their payments in local currency rushed to convert it to USD. Roughly USD 2.5 million was disbursed as part of the liquidation during this period. This situation primarily affected the parallel market in Kinshasa, where 90 percent of BCD clients reside. Second, Goma and Bukavu saw rising exchange rates due to continuing regional tension. Some analysts have suggested that rates increased because General Nkunda's forces flooded Goma and Bukavu exchange markets with local currency looted from the BCC's Bukavu branch office. These reports are unconfirmed.

MINING

INCREASE IN DIAMOND EXPORTS FORECASTED

4. According to CEEC director Victor Kasongo, the GDRC diamond supervisory agency expects DRC rough diamond exports to increase to USD 1 billion by 2006. Additionally, Kasongo projected production of USD 1 billion and exports of USD 700-800 million for 2004. Kasongo noted that the present difference between production and export figures represents the value of diamonds being smuggled out of the country.

SOUTH AFRICAN BUSINESSMAN FREEZES DRC ASSETS IN BELGIUM

5. The South African press reported that Frans Rootman, a businessman formerly operating in the DRC, has frozen over USD 20 million in gold and diamonds deposited in Belgian banks by the GDRC. Rootman won a judgment against the GDRC in the Transvaal High Court for breach of a 1998 contract with former President Laurent Kabila whereby Rootman was to receive a commission on the recovery of cobalt ore allegedly stolen from Gecamines by Zimbabwean Billy Rautenbach, then CEO of Gecamines. Rootman filed the suit in civil court naming himself plaintiff as a private citizen. Orders to freeze the assets were secured by a Brussels law firm acting on Rootman's behalf after investigators traced the assets to GDRC accounts in the Belgian banks. Under Belgian law the GDRC has 15 days to oppose the order, after which Rootman may formally seize the assets. These recent events come in addition to Rootman's seizure earlier this year of DRC assets in South Africa including Gecamines' corporate jet (since sold at auction for USD 1.9 million) and two large tracts of land in the Western Cape. (Comment. The South African Embassy commented that the freeze order was likely carried out by the Belgian banks in good faith after being contacted by Rootman's legal representation in Brussels. SA Embassy was unaware of any specific bilateral agreements that would have formerly extended the Transvaal High Court's ruling. As a final note, press reports on the matter of Rootman's freezing and

seizure of GDRC assets have tended towards the outlandish. Some of the reports are contradicted by widely known information, e.g. earlier reports that the GDRC's 80 percent share in MIBA had been seized are simply untrue. End Comment.)

TELECOMMUNICATIONS

TELECEL BUSINESS LEAKS ACROSS BORDER

16. DRC-based Starcell (formerly Telecel) is penetrating the cellular market in northern Angola. Starcell phones and prepaid subscription cards are being smuggled across the border by Angolan nationals and sold at cheaper prices than phones offered locally (USD 100 versus USD 240). Proximity to the DRC border permits Angolan users access to Telecel's network. (Comment. Starcell may have little other option than to actively promote this trade. The company has been losing market share since the arrival in the DRC of Celtel and Vodacom. End Comment.)

LABOR AFFAIRS

PUBLIC ENTERPRISE WORKERS STRIKE FOR SALARY ARREARS

17. Workers at DRC public enterprises and government services including ONATRA (transportation) RVF (river commerce), RVM (maritime trade), OFIDA (customs), and OCPT (postal and telecommunications) staged brief strikes in Kinshasa and the port cities of Banana and Boma to protest unpaid wages and poor working conditions. The strikes occurred in late June and early July, but work quickly resumed after the GDRC agreed to distribute a portion of the unpaid wages totaling several million FC. (Note. Many DRC public enterprises are in arrears. RVF workers, for example, had not been paid for nine months prior to the strike, but returned to work after being promised one month's back pay. End Note.)

POSSIBLE RVA STRIKE

18. Local press reports that workers of La Regie des Voies Aeriennes (RVA) are preparing to strike. Unconfirmed reports indicate that workers had tentatively set 26 July as the final date for negotiation before the strike begins. RVA's air traffic controllers and technicians claim that the GDRC has reneged on an agreement negotiated to end a strike last April. (Comment. Econoffs interviewed local sources including air traffic controllers who indicate that strike rumors may be due to internal RVA management wrangling. Salary arrears are a common cause of labor unrest in the DRC, but RVA is generally timelier in its salary payments than other government services. End Comment.)

TRANSPORTATION

KINDU-LUBUMBASHI RAIL LINE REOPENS

19. Rail transportation between Kindu and Lubumbashi in Katanga province has resumed. No trains had traveled the route since 1998. The line will be used primarily to transport freight and food aid. USAID provided most of the USD 1.3 million in repair costs. (Comment. The reopening of the Kindu-Lubumbashi line is important in that it 1) reconnects regions of the DRC isolated by conflicts of recent years, thus promoting reunification, and 2) permits the flow of aid and commercial traffic which will help to reinvigorate the economy in Maniema. End Comment.)

JORDAN, DRC SIGN AIR TRANSPORT AGREEMENT

10. Jordan's Petra News Agency reported that DRC Transport Minister Joseph Olenghankoy signed an agreement with Jordanian civil aviation authorities to allow commercial flights between the two countries. (NFI)

FORESTRY

11. Local press reports that La Societe Africaine des Bois (Safbois), an American-owned company, has purchased USD 2 million in equipment and vehicles to augment its timber exploration and exploitation operations in Isangi, Orientale Province.

TEXTILES

HONG KONG TEXTILE GROUP PURCHASES UTEXAFRICA

12. Local press reported that the Hong Kong-based Cha Textiles purchased a majority of the public shares of

Utexafrica from the company's former Franco-Belgian owners. Press reports indicate that Cha intends to change the firm's name to Congotex and trim its workforce. (Comment. Econoffs have met with Cha Textiles' representative in Kinshasa. The case appears to be a merger rather than a buy-out. Cha had a presence in Kinshasa until 1993, when its facilities were looted. Utexafrica's operations have also been severely reduced since the pillages of 1991 and 1993. The company is now in dire financial straits. Cha's offer constitutes an opportunity to recapitalize. End Comment.)

REGULATORY ISSUES

PARLIAMENT ADOPTS DRAFT BILL ON MONEY LAUNDERING

13. In early July, the national parliament adopted a draft bill on money laundering. The proposed legislation creates a clear definition of money laundering and provides for domestic enforcement mechanisms and international cooperation. The draft bill also includes a provision defining and outlawing the financing of terrorism. (Comment. While this draft bill is a step towards financial transparency and accountability, it remains to be codified into law. Even if this occurs, detection and enforcement shortcomings are likely. End Comment.)

HEALTH

GASTROENTERITIS HITS KINSHASA

14. Gastroenteritis infection due to water supply contamination by E. Coli bacterium has resulted in 77 deaths and nearly 3,000 reported infections in Kinshasa. Local authorities and NGOs have established treatment centers and are monitoring the spread of infection. (Comment. Lack of access to clean drinking water results in occasional outbreaks of bacterial infection in Kinshasa. The unusually low water level of the Congo River during this dry season has exacerbated contamination problems. End Comment.)

AID

IMF APPROVES USD 40 MILLION FOR DRC

15. The IMF has approved a release of USD 40 million to the DRC after completing a fourth review of the country's performance under a USD 861 million Poverty Reduction and Growth Facility Arrangement. The IMF also approved an additional USD 1.7 million requested by the DRC under the HIPC initiative.

DEBT

AUDIT REVEALS DEBT INCREASE

16. According to Finance Minister Andre-Phillipe Futa, the DRC's domestic debt climbed to USD 1.15 billion in 2003. Futa noted that the DRC is not likely to clear this debt in the near future. (Comment. The fact that domestic debt received scrutiny via an audit report is in itself a positive development. Nevertheless, the GDRC has yet to make any clear provisions for dealing with its debt. End Comment.)

17. INFLATION BY CATEGORY (IN PERCENT)

WEEK ENDING	6/10	6/18	6/25	7/2
FOOD	1	1	-1	0
BEVERAGE	0	0	0	0
NON-FOOD	-3	0	-5	-2
CLOTHING	0	0	0	0
RENT	0	0	0	1
TRANSPORT	0	0	0	0
SCHOOL COSTS	0	0	0	0
UTILITIES	0	0	0	0
COMBINED FIGURES				
WEEKLY INFLATION	0	0	0	0
MONTHLY INFLATION	1	1	1	0
WEEK ENDING	7/9	7/16	7/23	
FOOD	0	2	-2	
BEVERAGE	0	0	0	
NON-FOOD	1	1	8	
CLOTHING	0	0	0	
RENT	0	0	0	
TRANSPORT	0	0	0	
SCHOOL COSTS	0	0	0	
UTILITIES	0	0	0	
COMBINED FIGURES				
WEEKLY INFLATION	0	1	-0.6	
MONTHLY INFLATION	0	1	0.4	

MAY 2004 INFLATION: 0.2
 JUNE 2004 INFLATION: 0.4
 JULY 2004 INFLATION (TO DATE): 0.4
 YEAR TO DATE INFLATION: 0.0
 2003 INFLATION: 7.0
 2002 INFLATION: 22.0

18. EXCHANGE RATES IN CONGOLESE FRANCS PER US DOLLAR

	6/4	6/10	6/18	6/25
CENTRAL BANK RATE	386.4978	386.9505	387.075	
391.0448				
PARALLEL MARKET				
-KINSHASA	370-390	380-390	385-390	385-
392				
-LUBUMBASHI	375-380	380-390	380-390	380-
390				
-MBUJI MAYI	375-380	380-385	380-305	380-
390				
-KISANGANI	375-385	375-385	405-415	375-
385				
-GOMA	405-415	405-415	405-415	400-
410				
-BUKAVU	400-410	405-415	415-425	400-
410				
	7/2	7/9	7/16	7/23
CENTRAL BANK RATE	390.7816	392.7530	389.5709	
388.1864				
PARALLEL MARKET				
-KINSHASA	385-392	385-392	390-395	388-
398				
-LUBUMBASHI	380-390	380-390	380-390	385-
395				
-MBUJI MAYI	385-390	385-390	380-385	380-
385				
-KISANGANI	375-385	375-385	400-410	400-
410				
-GOMA	400-410	400-410	400-410	400-
410				
-BUKAVU	390-400	390-400	400-410	400-
410				

MEECE